

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
FEBRUARY 5, 2008**

ITEM 4

SUBJECT

CONSIDERATION OF A RESOLUTION ON THE STATE REVOLVING FUND (SRF) LOAN PROGRAM LOAN SERVICE RATE FOR STATE FISCAL YEAR 2007-08

DISCUSSION

The SRF Loan Program is a joint Federal/State funded program designed to help California meet the goals of the Federal Clean Water Act (33 U.S.C.A. 1251 et seq.). The SRF Program makes low interest loans for wastewater and water recycling system improvements, correction of non-point source and storm water pollution problems, and implementation of estuary enhancement programs. The Program receives funds from United States Environmental Protection Agency (U.S. EPA) Federal Capitalization Grants (Federal Grants), State Bond measures, the sale of Revenue Bonds, and the repayment of outstanding loans.

Operating costs for the Program come from the Federal Grants. Federal law limits the amount that can be used from the Federal Grants for administration of the Program to four percent (4%) of the Federal Grants. Until recently the Program consistently received Federal Grants from U.S. EPA, and therefore had a reliable source of funds to cover its administrative costs. Over the past few years, however, the Federal Grants have been declining and indications from U.S. EPA are that Federal Grants will be eliminated by 2011. If Federal Grants are eliminated, the Program will lose its only source of administration funds.

On October 13, 2007, Governor Schwarzenegger signed Assembly Bill 1742 (AB 1742) into law. AB 1742 amends the Water Code to allow the State Water Resources Control Board (State Water Board) to assess an annual service charge on SRF loans. The loan service charge will provide an alternative, reliable source of funds to administer the Program. Furthermore, service charge funds can only be used for SRF program administration costs.

The service rate cannot exceed 1.0 percent of the outstanding loan balance. Once the service charge is applied to a loan, it remains unchanged for the duration of the loan. The interest on any loan that is charged the service rate will be reduced by the service rate. The resulting interest plus loan service rate is equal to the original loan interest rate. Therefore, the loan recipient's annual repayment will stay the same.

The annual service charge will be applied initially to approximately 10 existing loans to begin collecting sufficient revenue to cover the program's administration costs. Since the loan service revenue is a percentage of the outstanding principal of each loan, the initial loan agreements will produce declining amounts of revenue each successive year. Each fiscal year, the State Water Board shall set the loan service rate for the coming year based on the anticipated budget and the anticipated loan agreements for the coming year. The loan service rate will then be applied each year to additional loans to maintain the revenue stream equal to the budget established by the Governor and the Legislature for the SRF program, consistent with the requirements of AB 1742 and good accounting practice.

This resolution establishes the loan service rate that will be applied to loans for the remainder of State Fiscal Year 2007-08. Establishing the loan service rate will allow the SRF Program to begin assessing service charges on existing and new loans that can be used for program administration costs.

FISCAL IMPACT

There will be no fiscal impact to existing or future loan recipients. Loan recipients will have the same loan repayments regardless of the loan service charge.

There will be no change in Program administration costs due to adoption of this resolution.

Federal Grant funds available for administration will be available for local assistance or future administrative costs if approved in the State Budget.

REGIONAL BOARD IMPACT

None.

POLICY ISSUE

Should the State Water Board set the loan service rate for State Fiscal Year 2007-08 to one percent (1.0%) of the outstanding loan balance?

STAFF RECOMMENDATION

The State Water Board should set the loan service rate for State Fiscal Year 2007-08 to one percent (1.0%) of the outstanding loan balance.

DRAFT
STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 2008 –

STATE REVOLVING FUND (SRF) LOAN PROGRAM LOAN
SERVICE RATE FOR STATE FISCAL YEAR 2007-08

WHEREAS:

1. Assembly Bill 1742 was signed into law on October 13, 2007, amending Sections 13476, 13478, and 13480 of, and to add Section 13477.5 to, the Water Code. The bill authorizes the State Water Resources Control Board (State Water Board) to assess an annual charge for loan services on a loan made under the SRF loan program;
2. Pursuant to Section 13477.5, Subdivision (a), a fund has been created in the State Treasury to accept service charges assessed on SRF loans;
3. Section 13477.5, Subdivision (c) of the Water Code states that the State Water Board “may assess an annual charge for loan services with regard to the loan, not to exceed 1.0 percent of the loan balance;”
4. In accordance with Section 13477.5, Subdivision (c)(3), once the service charge is applied to a loan, the rate shall remain unchanged for the duration of the loan and shall not increase the loan repayment amount; and
5. In accordance with Section 13477.5, Subdivision (e), at least once each fiscal year the State Water Board shall adjust the loan service rate to conform to the budget level set for the SRF Program.

THEREFORE BE IT RESOLVED THAT:

1. The State Water Board sets the administrative service charge for State Fiscal Year 2007-08 on SRF loans to one percent (1.0%) of the outstanding loan balance.

CERTIFICATION

The undersigned, Clerk to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Resources Control Board held on February 5, 2008.

Jeanine Townsend
Clerk to the Board